Formalization of ethics: the issue of standardization

Juliette Arnal

UMR 8595

Cahiers de la MSE

Formalization of ethics : the issue of standardization

Juliette ARNAL, MATISSE

2005.74

CENTRE NATIONAL DE LA RECHERCHE SCIENTIFIQUE

Maison des Sciences Économiques, 106-112 boulevard de L'Hôpital, 75647 Paris Cedex 13
http://mse.univ-paris1.fr/Publicat.htm

ISSN : 1624-0340

Formalization of Ethics: The issue of standardization

Juliette ARNAL[♣]

Working paper November 2005 [1]

Abstract:

Beyond the presupposed cleavage between economics and ethics, the institutional dimension of economic ethics is to be emphasized. The question is: how can we define collective legal rules which concern the whole society? The other great issue of ethics formalization is then the implementation on the level of firms. The firm can use a large scope of instruments in order to formalize economic ethics. The asset of ethical standards is that they represent a specific way of coordination. They bring positive effects such as the fall of coordination cost and the reduction of uncertainty. Ethical standards can be regarded as a way to get information. They are also a way to formalize a "common morality", or even an universal morality in a Kantian conception. The central issue, regarding ethical standards, remains its origin and its construction.

Key words: Economic ethics, ethical standards, industrial economics, industrial policy

La formalisation éthique en perspective :

L'enjeu spécifique des normes éthiques internationales

Résumé :

Au-delà du clivage présupposé entre économie et éthique, la dimension institutionnelle de l'éthique économique se doit d'être mise en valeur. Il s'agit d'analyser comment définir collectivement les règles légales auxquelles l'économie doit se soumettre. La question de la formalisation de l'éthique se pose alors pour qu'elle s'intègre à l'entreprise. Une multitude d'outils sont à la disposition de l'entreprise pour formaliser l'éthique économique. L'intérêt tout particulier porté aux normes éthiques se justifie par le fait qu'elles représentent des modes de coordinations originaux. Leur mise en place s'accompagne d'effets spécifiques comme la baisse des coûts de coordination, ou encore la réduction de l'incertitude par la diffusion d'informations. Elles offrent aussi la possibilité de formaliser une "morale commune" dans une conception kantienne. Il reste cependant important de mener une réflexion concernant l'élaboration de ces normes éthiques.

Mots clés : éthique économique, norme éthique, économie industrielle, politique industrielle

Classification JEL : L16, L59, M14, P12

[♣] Doctorante en Sciences économiques - Allocataire Monitrice Normalienne LESSOR (Université Rennes II) et MATISSE (Université Paris I) Maison des Sciences Économiques - 106-112 Boulevard de l'Hôpital 75013 Paris - Arnalj@univ-paris1.fr

[1] A former paper had been submitted during the *DRUID Academy Winter 2005 PhD Conference*, Aalborg Denmark, 2005 January 27-29.

Introduction:

Economic ethics is that part of ethics which deals with behaviour and institutions in the trade market [Arnesperger & Van Parijs (2000)]. In a normative perspective, economic ethics includes individual ethics, professional ethics (or deontology), and social ethics, as a product of institutions. Both the individual and the professional dimensions of economic ethics study how economic agents should act in activities of exchange and production. Economic ethics also tries to define collective legal rules which concern the whole society. This is the institutional dimension of economic ethics.

In the business field, there is a will to satisfy a financial purpose while adopting an ethical policy. In fact, economic ethics is now often implemented and can explain some industrial evolutions. But why should the firm try to combine profitability and ethics? The answer seems to lean towards pressure from the stakeholders. More precisely, the rise of new consumers' movements becomes part of the external environment of the firms. Their demand for ethics will likely keep on altering companies' behaviour. But can this adaptation under constraints really lead to ethical behaviour? It is necessary to arbitrate between the moral and the economic issues of the company, which may lead to a more ethical emerging capitalism.

Beyond the presupposed cleavage between economy and ethics, the institutional dimension of economic ethics is to be emphasized. Then, the implementation on the level of firms is the great issue of ethical formalization. The difficulty of defining business ethics leads to numerous interpretations of ethics, and thus to numerous ethics formalizations. Firms can use many various tools in order to integrate ethics into their strategies: from codes of conduct to more formal ethical standards such as ISO 14001, OHSAS 18001, SA 8000 and AA1000 for instance[2]. The firm can use a large scope of instruments in order to formalize economic ethics.

The asset of ethical standards is that they represent a specific way of coordination. They bring positive effects such as the fall of coordination cost, or the reduction of uncertainty. Ethical standards can also be regarded by the consumer as a way to get information. Thus, ethical standards ensure information to stakeholders. Moreover, modern studies on standardization rest on the incomplete information assumption. They justify the emergence of standards, in particular of ethical standards. The common point of these approaches is the hypothesis of the agent imperfect information. The market is no longer the most efficient means toward coordination. Nevertheless, they do not agree on alternative coordination [Ravix & Romani (1996)]. These various approaches include three major theories: the transaction cost theory, the agency theory and also the convention theory. It seems interesting to analyse these three in order to define the issue of ethical standardization. By improving information transfers, standardization constitutes an original coordination mechanism for business relationships. It helps to coordinate contractual relations with customers and shareholders. Ethical standards also reinforce the coordination process because they encourage trust among economic agents.

So the question here is the role that international ethics standards play on markets. We will try to describe, first, the link between economic ethics, firms and markets. This leads to the question of the formalization of ethics in firms. The hypothesis here is that international ethical standards have a specific status on markets. The main issue that remains is, of course,

[2] E. Champion and C. Gendron (2003) give an interesting lists of standards in "Corporate Social Responsibility tools" *Les Cahiers de la Chaire* - n° 17-2003, UQAM, Université du Québec à Montréal.

the one of the legitimacy of ethical standards and of international organizations which develop these standards. In a perspective of "*Communicative Action*" [Habermas (1984)], it seems obvious that a debate is necessary between the various stakeholders within the organisation to legitimize its choices. It appears that legitimacy and efficiency are both necessary for ethical standards. This brings to light the hybrid character of the standardization process. It has its specific place between the pressures of the market and the supervision of authorities.

I A difficult marriage between firms, ethics and economy

I.1 Economics and ethics: a fake exclusion

From a microeconomic point of view, ethics is often considered as necessary but also impracticable. The concept of economic ethics is in a dilemma: there is no reason to consider a systematic harmony between what ethics recommends and what requires the maximization of profit, even on the long term. Some economists consider that the very first aim of firms is to make profit and to pay shareholders. "T*here is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud"* [Friedman (1962)]. This approach rejects all non economic constraints. However, this stream has no monopoly on theories about firms responsibility. Firms do not have to deal with ethics. Thus, ethics finds itself is out of the field of economic analysis.

Besides, there is no place for the ethics concept in the neoclassical theory. Pure and perfect competition is considered as the best society organization. It lets an optimal allocation of resources. In this context, the Invisible Hand process controls markets [Smith (1904)]. Each individual strives to become wealthy "*intending only his own gain*" but to this end he must exchange what he owns or produces with others who sufficiently value what he has to offer; in this way, by division of labour and a free market, public interest is advanced. "*The subject of the invisible-hand theorem in the Wealth of Nations is a businessperson who is virtuous in spite of himself. The market forces him to serve the general welfare in order to pursue his own interests*" [Baumol (1991)].

Adam Smith saw the immensity and pervasiveness of human incentive, of self-interest, of the profit motive in human affairs when he wrote in The Wealth of Nations: "*It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages"* [Smith (1904)]. In this perspective, economic agents burdened with ethical principles are not relevant. There is no more debate: markets do not need ethics. The invisible hand regulates the economic system. But, in some sense, the Smith's argument can be viewed as an ethical postulate. It is interesting to review the Smith's ethics suggestions in the "*Theory of Moral Sentiments*" [Smith (1790)]. Here Smith states that the principle by which we evaluate our conduct seems to be the same used in cases in which we approve or disapprove the conduct of other people. We behave as if we could put ourselves as third persons for evaluating our own conduct. This moral posture must be taken into account when analysing the "Wealth Nations" ideas. In sum, it seems that Smith's position include ethical consideration, and then the breakdown "ethics" and "economics" does not started with his ideas.
On the contrary, the Lionel Robbins's position has turned out to be more relevant in order to understand why economists began to avoid ethical judgements. In his "*Essay on Nature and Significance of Economic Science*" (1932), Robbins limits the kind of judgement economists

should formulate. That is, those in which interpersonal comparisons are avoided. In particular, Robbins developed three important methodological precepts in this essay:

1 The economics must study the relationship between given ends and scarce means which have alternative uses.
2 The relationship between "ends" and "means" implies to study "positive" issues. That is, positive issues are question about what is. Economist must avoid declaring about normative issues.
3 Economics is a system of logical deduction which is founded in the study of the relationship between ends and scarce means.

Because of this formulation economists focused their attention only on the way efficient allocation of resources should be achieved. This has implied the adoption of a particular position concerning the market. Markets are coordinating mechanisms of resources through the price system. This may explain the economics theory bias regarding the exclusion of ethics formulation.

Baumol analysis (1991) re-establishes the debate. He thinks that market and virtue are in opposition. In perfect markets, the moral attributes of the market are not efficient. Baumol shows with a matrix, that honesty is the dominating strategy in repeated games. However, in perfect competition, a firm that shows alone an ethical attitude will support some additional costs. This phenomenon can evict firms from the market. Then, he concludes that in perfect markets integrity is not a possible strategy for firms. "*Thus, in this arena, these «perfect» market forms impose vice rather than virtue*" [Baumol (1991, p.3)].

Brennan & Buchanan (1985) develop the same theory: they tried to show that non-ethical attitudes evict ethics from the market. They named this theory "*Gresham' Law Politics*", in reference to Gresham's law which concludes that bad currency supplants the good one on markets [Ballet & De Bry (2001)]. Through this analysis, ethics and economics seem difficult to combine. The ethics concept has no place in markets.

However, the development of capitalism is due to the protestant ethics and the progressive one. Therefore, Aristote was already writing that businessman's life is an unnatural life and that richness is not what we are looking for, because it is a mean for something else [Aristote (1972)]. Economic science can not deal with normative approaches without taking into account ethical aspects. So, economic ethics seems not so impracticable.

Some even think that a "*new economic ethics*" can take the place of those two well known ethics currents that sustained the growth of capitalism [Salmon (2000)]. In fact, economic system is searching for a new spirit that it lost with wild capitalism.

Hirschman (1984) shows that the purchase of individual interest is not sufficient on a macroeconomic level and on a microeconomic one. He brings to light the importance of standards and ethical attitudes in *"market failure"* cases, like the one of negative externality.

In order to combine ethics and economics, Koslowski (2001) brings up a theory about the integration of ethics concept in market economy. Economy is no longer run by the invisible hand phenomenon. He is working on "*economic ethics*" concept: ethics is not an addition to economic system but a real part of it. Ethics is the guarantor of the system. In order to illustrate the above statement, he insists on the unpredictability of economic agents in an economic system without ethics. Economic ethics has to regulate economy. On a microeconomic level, the question is: Is there a place for ethics in firms?

I.2 Ethics in firms policy

A firm is a product of the society at a given time [Poirson (1995)]. Tourraine (1972) even compares a firm to a "*politic institution*". In this context, which is the role of firms in the blow of economic ethics? When firms are considered as responsible on markets, in a wide conception, some cases of interference between the private and public sectors may emerge.

Depending on currents, the responsibility concept has very various places: ones reduce firms responsibility to profit, others extend firms responsibility to relations with stakeholders. There is a third way: according to this theory, only juridical responsibility of the firms exists [Hallis (1930)]. This analysis rejects the concept of firms responsibility. Firms only have to respect the law; this establishes their juridical dimension. Another less radical point of view is that ethics matters, but it is not the direct purpose of firms. "*Society has every reason to ask business to be much more careful in its use of the environment, to do much more to protect the interest of consumers, and so on. But we neither should nor can rely on "voluntarism" for this purpose*" [Baumol (1991, p.49)]. In this context, the law and public decisions have to lead private designs to collective welfare. Some can even consider that ethics is not really linked with law or firms, but is part of agent's liberty.

The Organization Theory [March & Simon (1958)] is a start point in order to develop business social responsibility. Three American schools were pioneers in this field. The *Business Ethics* School, the *Business and Society* one and the school of the *Social Issue Management* [Gendron (2000)].
Two others approaches can be mentioned: The German school of "*Communicative Action*" and the critical French school [Ballet & De Bry (2001)]. Each school has a specific point of view about business responsibility and develops its own corpus.

For *Business Ethics*, the moral responsibility of firms is at the basis of it commitment in social and environmental issues. The agent in the firm aims his target which is chosen by the firm and for the firm. So, firm can be seen as a moral person and this due to the intentionality of the firm. This intentionality is linked to firm strategy [French (1979)].

The stream of the *Business and Society* is more related to the notion of "*implicit contract"*. Its central hypothesis is the overlap of firms and society. The society creates a context that is essential for the development of a specific organization: the firm. It is indebted to society. But responsibility is also a mean to maintain a competitive position or to gain market shares.

The stream of *Social Issue Management* considered that the environment of the firm is not only economic but sociological and political. Firm should take decisions in order to respond to traditional aims of profitability, but it is also a real social actor linked to the political field.

Another branch is the one of the German School, that is build on "*Communicative Action*" developed by Habermas (1984). The originality of "*Communicative Action*" is the role given to moral standards. These standards emerge from a consensual dialogue. Dialogue is considered as a "*social process of discussion*" between various agents. This theory does not reject the Kantian universalism; it only proposes a mean to draw standards. So, at firms level, strategies must be established with stakeholders' opinions.

The last approach we want to emphasize is the French critical one. Its main representatives share some mean points. According to Pesqueux and Ramanantsoa (1995), these specificities are:
- Justice is at the centre of the analysis
-They develop a critical point of view on firms ethical attitude, by drawing a contrast

between what they say and what is really done.
-There is a specific interest about conflicts which occur between morals expectations and professional responsibilities.
-This school insists on the distinction between ethics, moral and deontology.

Globally, the *Stakeholders Theory* reflects the evolution of the economic conception of firms. It tries to analyse not only shareholders but also every agent linked to the firm. So, the field of this theory is the need and the will of these agents and organizations, which are part of the society. The economic performance of the firm is not out of the line, but it shows that firms had always played a crucial social role. So, business responsibility is no more a chimera. This concept of responsibility, which leads to the obligation of a specific attitude, can vanish the presupposed gap between firms and ethics.

Nevertheless, the ethical attitude of a firm can reflects real ethical preoccupations but it also can be just an efficient business tool. Firm, as a rational and egoist entity, can consider that it is of its own interest to be ethical. We can draw a parallel with iterated prisoner’s dilemma. In the long term, as we consider that the firm will play several times, it can be rational to adopt an ethical attitude.

This strategy is an insurance against risky situations as boycotts or wage earners claiming. What is more, when Savage (1954) claims that actors have strategic rationality, agents must face some constraints. Theses constraints explain the use of rules in order to coordinate economic behaviours. Another explanation is the immediate interest of agents in using rules [Chaserant & Thévenot (in Batifoulier, 2001, p.35-61)]. If maximization of individual interest takes into account the constraints that agents have to support, then the main explanation of the adoption of a rule is the self-interest of involved agents.

Ethics is then considered as a calculative approach. At firms level, it can be used as a complementary tool for a strategy axed on economic criteria. It is the approach of the “*rotten firm*” theory, developed on the model of the “*rotten kid*” theory [Becker (1974)]. As the “*rotten kid*”, the “*rotten firm*” chooses a strategic altruism to make profits in a competitive environment [Ballet & De Bry (2001)]. In a certain way, this implemental conception of economics brings about reconciliation between economics and ethics. It is relevant to consider also some specific cases, in which ethics is not a mean but a real aim.

In short, the integration of non-economic constraints allows for ethics to be included into economic analysis. In this case, it seems that the including of other kind of constraint implies the enlargement of the economics to fields such as ethics, but at the same time, this expansion can keep using the notion of optimisation as a way to explain agents’ behaviour. Consequently, one question emerges: does the maximisation rule have something to do with ethic principles? In the case of “*relational contracts*” [Baker, Gibbons and Murphy (2001)], to reputation maintenance is a coherent strategy regarding the maximisation principle. It is not so clear why in some cases agents decide to follow ethical precepts and why in others they do not? In fact, when trust is established, it seems that maximisation principle continues to be adopted to explain why agents use a strategy which is coherent with ethical postulates.

So ethics may play an effective role in firms. Kant moral (1981) is surely too strict for business world, but an agreement compromise is possible. One has to be pragmatic and realistic to include ethics on a microeconomic level. Indeed, capitalism is changing, but it is too early to really say what way it will choose. Clearly, ethics appears to play an important role in economics. However, the choice between a simple implementation of the ethics concept and a real moral involvement is not an easy one. In those two cases, formalization of ethics is a necessary stage on the way of inserting ethics in firms.

I.3 Ethics formalization: a competitive perspective

Economic ethics responds to a demand of references and common standards relative to economic area. Its formalization responds to the necessity of constructing a social identity of the firm and of mastering some problems erected from the relationships in organization and between them.

There is then a risk about the implementation of ethics on a practical level. In fact, models that embedded ethics values, as the traditional form of paternalism, or as the modern concept of responsible firm, escape to the "*systemic under-optimality risk*" but they have to face the implementation issue [Pérez (2003)]. To face this practical risk, some regulative rules, in Searle conception (1995), are necessary.
Regulative rules are a way to forbid, to recommend, or to impose an attitude in a well-known context. Actually, formalization is the symbol of the commitment of firms in ethical practices. Formalization is a major medium to establish ethical principles [Berenbeim (1992)]. It is a tool between law and firms values. So, it is one singular tool that can be used by the firm to show its fondness for some principles.
Moreover, formalization is a way to avoid the "*isolation paradox*" [Sen (1964)]. Sen introduced this concept: that is a person may save more today if he knows that B is also going to save more, but not if he has no such knowledge. For while A cares about the welfare of the future generation, she thinks that her saving alone is not going to make much difference to that welfare whereas other persons also saving more is going to make a big enough difference for her to give up a larger part of her current consumption. According to this paradox, a lonely actor will not respect the ethical rule even if he knows that it is fair. In fact, he is frightened of being the only one to follow the rule and he is sceptical about the attitudes and choices of the other agents.

First of all, codes of conduct resume ethical principles that direct the firm. The firm claims to respect those codes which list principles. At the beginning, codes of conduct are a volunteer initiative of the firm that is not imposed by the legislation.

In the same way, some ethics rating agencies emerge, following financial evaluation. These scores are used by the actors of socially responsible investment to make their choices and investments.

Some firms also opt for ethical labels on their products. Ethical labels ensure that the producer had been audited by a neutral firm. Licensing allows the firm to put a label on products that had the agreement of the auditor. Some various environmental labels exist as the European "Ecolabel", the AB bio-label, from the French ministry of agriculture, or labels on sustainable exploitations of forests. There are also some social labels, in particular the Max Haveelar label which concerns the trade fair business products.

There are also many standards in ethics field. They deal with the major subjects related to the respect of the body, working conditions, and environment. Standards have been looked at as a tool of engineering and industrial economics. Standardization is considered as a common formalization that eases exchange on markets and increases transparency. Firms that opt for ethical standards have to accept the inspection of a foreign auditor. On the model of ISO 9000 quality standard, some social and environmental standards have been developed. Standards have often a technical dimension. They are giving rules for production and evaluation of goods and services. About the environmental issue, the very first standard is the ISO 14000 family standard, and on the social level, it is the SA 8000 standard that is build on fundamental texts of the ILO.
In order to select an ethical formalization or documentation, the choice is done at firms level.

So a downstream competition occurs. The analysis of Besen and Farrell (1994), shows that behind a "*competition within the market*", that is a classical competition by price or quality, there is another kind of competition: a "*competition for the market*". Downstream rivalries between firms emerge to impose a standard. It is relevant to widen the concept and to consider that this phenomenon also occurs in the choice of an ethical formalization. In order to keep being competitive on markets, firms have to take into account the change in consumers' habits. Various groups of consumers emerge and some focus on the ethical meaning of their behaviours especially on the purchase of goods and services. It can be profitable for a firm to focus on those specific consumers.
Competitiveness for a firm, on a competitive market, is the ability to sell products with a profit and on a long period. So, firms need to seek for consumers' needs and to give a profitable respond to those needs. While seeking for profit and competitiveness, firms are looking for differential rents. This strategy does not put in opposition two products on the same markets but two conceptions of the market [Cochoy, 1998]. A pioneer firm in ethical formalization can get a quick reputation on market. It can even be seen as a leader in that field. Various logics of interactions can then emerge: coalition coordination in case of a weak competition, or competitive coordination in case of strong competition. Two other cases occur in a non-cooperative logic: the undergo standardization one and the lonely strike for the market domination one [Hamdouch, 1997]. This phenomenon can be easily transposed to ethical standardization. A link can also be done with the Game theory, and particularly with the battle of the sexes game.

According to Chicago School, a formal tool on the market is selected by the market because it is the best one and so it allows a perfect competition. Such an analysis can be denied: there is no reason to consider that tools are not creating barriers on markets. Arthur describes the case of standards. A standard is selected because of "*smalls events*" [Arthur, 1988]. The micro-decisions of actors have a real impact on the spread of a tool of formalization and on the creation of a competitive advantage. So, the choice of an ethical formalization tool is strategic for a firm.

However, the legitimacy of the firm to tackle ethical issues is not completely established. The resolution of ethical issues traditionally leads to the adoption of juridical mechanisms which reinforce the institutional frame. The law is then an imposition of minimal ethics. For most firms, ethics is nothing more than a formal policy which remains symbolic, or even commercial. Ethics standardization should emerge from a reflection on the links between ethics, standards and economy.

II Ethical standards: a tool of formalization

II.1 Ethics, moral and economy

To understand the stake of the issue that tempts to link ethics to standard, it is necessary to distinct moral from ethics. Moral makes reference to a value system that makes people distinguish well from evil. This system emerges from a socialisation process.
In a Kantian conception, the moral has necessary a universal dimension. Kant sets out a moral precept though the categorical imperative. The categorical imperative within us is the unconditional demand of conscience to "*act as if the maxim of our action were to become by our will a universal law of nature*". We know - not by reasoning - but by immediate feelings, that we must avoid behaviour which if adopted by all would render social life impossible [Kant (1981)]. A moral comportment has to be in conformity with three conditions: be valid on a universal level, respect human being as individual, and be acceptable by any rational being, as if roles were reversed, the involved actors will always agree.

So, moral seems to be a social construction, and even an universal construction, whereas the ethics only can be a personal construction. Those two concepts are not opposed; neither are orders in a hierarchical system. A distinction is only essential to really understand the problematic of those notions. In fact, the various ethics have local dimensions, that is why they are so many and have different status [Etchegoyen (1991)]. The cultural dimension seems to have an impact on ethical issues. These differences do not forbid drawing parallels between practices. As example, there are three great models of deontology: the North American model, the north European model and the Continental one. It is not convenient to impose a single model because diversity of practices reflects diversity of attempts, needs and aims.

Is it possible to connect ethics to standards? Because moral has an universal dimension, it may be conformed to standard expectation. On the other hand, ethics is only relevant at a local level, so it has a real practical dimension. However, this aspect of ethics is difficult to combine with standardization. Development and application of ethical standards invite to think that practically ethics and standards are compatible. In fact, the international standardization of ethics has speed up since the creation of the WTO in 1995.
Regarding possible explanations of why ethical standards emerge, we can analyse the Sen's theory of the "*rational fools*" [Sen (1977)]. He establishes that agents' preferences are ordered at two different levels: first of all, at an individual level in which agents order according to they really want. At a second stage, a new order is instituted taking into account "rules", "social rules", "conventions", and so on. That is, the previous state of nature is modified including so on "institutional" conventions.

II.2 Is ethics standardization profitable?

Ethics standardization can be an asset for the firm. It leads to some opportunities that can become competitive advantages on the market. In the long term, opportunities can emerge as economy of primary resources and energy. Firms can also aim an insurance against sanction risk by consumers or a valorisation of its image on the market.

If being ethically correct seems being profitable, ethical practices dependant on economic climate. Then economic ethics is seen as a cost. According to the *Waste-Preclusion Theorem*, any expense that, in the long term, does not lead to a reduction of costs, and so an increase of profit has not to be hire. Baumol quotes this theorem in order to show that any decision conducting to needless expenses, puts the firm in a less competitive position on the market, the latter can lead to its eviction from the market.

However, expenses for ethics are not always considered as a waste [Baumol (1991)]. A firm j opts for an ethical action that reduces its income b, but increases consumer welfare c. In the short run, j is going to lose b because it does not take into account consumer profit. However, if b = c, and if consumers are ready to pay a little bit more of j products with have some particularities , the cost b for the firm j is balanced by the additional income c. The price increase can be very limited if sells increase and allow to pay off the fixed costs on a huger number of products. An ethical attitude is then compatible with market.

Consequently, Baumol highlights the fact that market can, in reality, introduce morality in relations between economic agents. He shows the example of the discrimination in hiring. In either case, such behaviour will render the discriminating firm vulnerable to destruction through the competition of rival enterprises whose morality in terms of social discrimination is superior, or whose greed is sufficiently powerful to lead them to forgo behaviour consistent with their managements' sexual or racial prejudices. Thus, in this case, "*perfect competition and perfect contestability alike tolerate no business deviation from virtue*" [Baumol (1991, p.18)].

Concerning the profitability of ethical strategy, in 1975, Bowman and Haire established a U shape curve between responsibility and profit. Then, it is profitable to be ethically correct but to a certain point. Another synthesis on the link between financial performance and ethical performance had been also done by Roman, Hayibor and Agle (1999). It concludes that on 52 studies, 33 establish a positive link, 14 say that there is no link and 5 make the hypothesis of a negative link. Choosing an ethical attitude can have some advantages, but it necessary to moderate this result.

Berman (1999) also developed two models studying the relation between financial performance and the place given to stakeholders. In the first model, stakeholders, but shareholders, are only a mean for firms in order to increase profit. Only shareholders are treated as real actors. In the second model, all stakeholders are considered as aims. Test results sustain the first model and reject the second one. The financial performance seems to be increase in the first model.

We conclude that the link between ethics and profitability can neither be ascertained nor denied. The difficulty is that the evaluation of ethics is done only on a qualitative level whereas the criterion of profitability is a quantitative one. The attitude of actors is still influence by their way of considering ethics: that is a profitability opportunity or an expense item.

Koslowski (2001) position gives an encouraging conclusion. According to the author, skills are not entirely effective, moral businessmen are not all ruined, and economic ethics cost are not so high, so economic ethics remains a part of the economic system.

II.3 The emergence of trust

It seems logical that ethical standards ensure information to stakeholders and stakeholders. So, ethical standard is a specific way of coordination. In theory, modern studies on standardization use the incomplete information assumption justifying the emergence of standards, in particular of ethical standards. If fact, due to the complexity of the subject, it seems relevant to present various points of view as the transaction cost theory, the agency theory and also the convention theory. It is through the confrontation of theories that a modern analysis may emerge.

According to the transaction cost theory, the imperfect information hypothesis claims that the market coordination is not free. Firm [Coase (1937)] and generally organization [Williamson (1975)] represent another way of coordination. They are based on hierarchical principles. There is an arbitrage between exchange costs on market and the cost for an organization to work. The point of transaction cost theory is to resolve asymmetries of information. What is relevant here is that ethical standardization helps business coordination: They bring positive effects such as the fall of coordination cost, or the reduction of uncertainty.

In this perspective, it is convenient to think about a relationship between those notions: “standards” and “routines”, “norms” and “rules”. This is important considering the analysis of intention of firms policy using ethics formalisation. In short, there are some questions coming out regarding this possible relationship:

- Are routines, norms and rules ethical standards?
- If not, what are the most important differences?

Neo-institutionalist science makes more complex the analysis with the bounded rationality theory. To describe the behaviour of agents, Simon (1982) presents the hypothesis of a bounded rationality. Its restricted cognitive aptitudes do not allow the agent to obtain and treated all the information. From this hypothesis of restricted rationality, comes the importance of standards, that generate information and allows making a more accurate choice for all stakeholders.

The approach of the agency theory is not to be mistaken with the transaction cost theory: the contract homogenizes market and organization categories [Favereau (1989)]. The agency theory is built on the contract concept. These contracts put the stress on the coordination between two actors: the principal and the agent. The principal/agent relationship is characterized by an asymmetrical situation. The principal is looking for mechanisms which reduce agency costs and can make the agent reveal the information he has [Arrow (1973)]. These mechanisms include incentive schemes. Here, the licensing process is considered as a mechanism imposed by the client in order to face the uncertainty of the relationship supplier/customer. It is relevant to note that this theory only consider that contractual relationship between firms are focus on products. An analysis has to be done on the definition of products in order to allow further relationships between firms.

The hypothesis is taken and presented by the conventional theory. This stream distinguishes market of product and market of organization [Favereau (1989)]. On market of products, contracts are complete and deal with standardized products. Those contracts are complete when the characteristics of the product are given without ambiguity. Incomplete contracts define exchanges on market of organization. Buyers have to trust the firm. The judgement on products is built on the judgment on the firm and through its reputation [Eymard-Duvernay (in Orlean, 1994)]. We can draw a parallel between market of product and product licensing and also between market of organization and firm licensing. The majority of ethical standards treats of firms licensing. Including labels in standardization concept allows reintroducing numerous cases of product licensing.

The starting point of these corpuses is the uncertainty the agents have to deal with, especially about ethical characteristics of products. Standardization is a way to reduce this uncertainty: it becomes a mean of information. Reasons that lead to specific way of cooperation are not only link to the asymmetry of information phenomena [Ravix & Romani (1996)]. It is also necessary that firms use their resources and competences to organize their production process. So, firm licensing is different from product licensing. The distinction between those two concepts brings to light other strategic functions of standardization of ethics as the emergence of confidence.

In a global perspective, ethical standards reinforce the coordination process because they encourage trust among economic agents. In fact, according to Sen (1999) exchanges in an economic system rely on mutual trust and explicit and implicit standards. Trust seems to be at the centre of concerns for the survival of an economy of market system. Explaining cooperative behaviours of actors often involves trust. According to Boyer (2002) trust is defined by the fact that a firm believes in the honesty of its business partner. Establishing an ethical standard is a mean of establishing a relation of trust: it is a mean of coordination between firms. Trust decreases transaction costs, because actors come to an agreement more quickly and need less mutual control. Spontaneous obedience to ethics and specific rules decrease transaction costs [Koslowski (2001)].
Ethical standards reinforce trust in economic agents relationships. They base their analysis on the imperfect information assumption. The economy does no longer obey the perfect information assumption. Trust leads to decrease transaction costs. However, it is relevant to underline that in Williamson analysis (1975), trust is seen as unnecessary. Actions of economic agents are only explained by their individual interest. Nevertheless, even in the cost transaction theory, trust concept seems to have a role to play.

The absence of complete information and the existence of certain risk in the execution of contacts lead the establishment of a relation of trust. The asymmetry of information characterises a great number of relations, for example between customer and client [Akerlof

(1970)], and contracts are often incomplete. Ethical standards emerge as a mean to cut down the cost recovery information and to reduce uncertainty. The aim is no longer to explain the vertical degree of integration, but the category of contract signed between two firms. The question is to know if contracts can take into account the ethical dimension of exchanges. When firm makes the choice to take the market as a mean of coordination, standardization of ethics can serve to establish a specific and durable relation between economic actors.

Standard not only allows a better allocation of resources as an exogenous vector of information that leads to a reduction of transaction costs. What prevails is a collective and conventional process of coordination that eases the coordination of behaviour. In this logic, the convention corpus gives sense to behaviours. This stream stresses that one of the major characteristics of trust is that it is an element of stabilization of the anticipations and a disposal that secures the uniqueness of social representations of actors. This process permits an involvement in action [Micheletti (2003)]. In fact, it seems interesting to analyse what can occur in a "relational" strategy. The strategy developed in the firm is not build on the law of market, but on specific relation that the firm establishes with some stakeholders. The relation of trust is not perceived as contrary to the relation of utility, even if it is not reduced to.

Relation trust is a source of ad value as it permits to decrease costs of "mistrust" and to establish optimal solutions of mutual adjustment. This process introduces the notion of reputation to which trust is often linked. Signal theory also deals with theses issues. It argues that a link exists between reputation and credibility [Barro & Gordon (1983)]. The more the reputation of the agent is sure, the more its behaviour is considered as credible. The link between reputation and trust is at the basis of a virtuous circle thought the one reputation is increasing from terms to terms. The use of ethics can then be considered as a trust accelerator [Micheletti (2003)]. In this specific case, in order to maximize the credibility of certification, an independent organization is necessary. The independence of information is a condition of its transparency. The question of the independency of the firm which has to allow the certification is complex: how a firm can be independent whereas it has a financial link with its client? It is possible to draw a parallel with this issue and the signal theory[3]. Behind the question of the independency of the control of the application of standards, there is the question of the general legitimacy of ethical standards.

III. The legitimacy of ethical standards

III.1 The cooperation between private and public sectors

Coordination process is related to the idea that different groups of actors can bring a better efficiency to the resolution problem process. This approach is present in the German School that proposes a "*Communicative Action*" that is built on Habermas writings (1984). His reflection leads to expound the rule of a discussion that can help the actors to define standards of behaviour. The starting hypothesis is that there is no standard on behaviour that is always valid. To create standard that may have a universal dimension; they have to be the result of a discussion [Habermas (1971)].

"*Communicative Action*" establishes a frame for communication and rules reached by consensus. The standard legitimacy depends on this debate. More precisely, the two great principles of the approach are the D principle and the U principle. The D principle is a discussion principle that permits to deal with interest conflicts and to turn valid some action principles. The aim of the discussion is to evaluate through the discussion that escape to

[3] In the case of France, there are 25 independent firms which are allowed by the State to give certification of firms or products. The famous are the AFNOR and the *Laboratoire National d'Essais.* Those firms are under the law of the 10/01/1978 on the protection and the information of consumers.

market [Mahieu (2001)]. The U principle is the principle of universality: only the standard which is accepted by everyone is justified. Then, the question is: Are those two principles compatible?
The cornerstone of the approach is the response to this question. All the conditions of the dialogue are very rarely joined together in the firm: lack of time leads to speed decisions; organizational reasons stop the involvement of economic actors. Consensus is also frequently distorted by an unequal repartition of information capacity and communication capacity of actors. So, a dialogue between various actors is not enough to give the guarantee that the strategy chosen is a fair or a good one.
In order to establish the legitimacy of standards, there is in the "*Communicative Action*" conception, the necessity of a global collaboration between various actors. However, it is not easy to give birth to this collaboration. The specific stake is to establish a real cooperation between private and public actors.

The partnership between the private sector and the public one has to be encouraged, but it may not be a security for private strategies that are not really linked with the general interest. Governments need to encourage the standardization of ethics and help the dialogue between actors, and in the same time to check them. In reality, nowadays, private regulation has asserted itself a new way of international regulation. The best solution would be the use of the regulation by concentrating the private rule in the fields where it can be effective. This outlines the hybrid character of the standardization process. It has its specific place between the pressures of the market and the supervision of authorities.

The central issue, regarding ethical standards, is its origin. How can ethics be standardized if they only remain valid on a local level? It is specifically though the development of ethical standards that ethics and standardization can be reconciled. It seems important then not to distinguish the system of standardization and the implementation of the standard. Actually, these two notions are strongly linked. The standardization system is a whole entity, in which firms have a role to play for the development and the spread of ethical standards.

III.2 The confrontation of policies

The role of an international institution is to control creation and implementation of ethical standard. Sen shows the necessity of an international regulation about economic ethics. According to him, capitalism has to face some difficulties: inequality issue and the question of common good, as environment. In order to find some solutions, without sentenced the market and its development, institutions will be necessary as ethical rules [Sen (1999)]. Capitalism needs regulation. Private actors do not have enough economic independence to control standards all other the world. Economic actors may be in favour of the development of a public and democratic regulation. International institutions will have a referee role, and private actors will also take part of the decisions.
As firms, states have a stake in promoting their proper rules about ethical formalization. It is necessary to underline the key role of the USA in the field of international standardization. American standards are almost automatic references to private firms at the international level. It was the case of oil industry with the standards of the *American Petroleum Institute* (API), of car industry with the standards of the *Society of Automotive Engineers* (SAE), In electronics with the *Institute of Electrical and Electrotecnics Engineers* (IEEE), and more generally with the *American Society of Mechanical Engineers* (ASME) and *the American Society for Testing and Materials* (ASTM). American standardization relies on a complex organization that overlap many private institutions specialised in a specific sector. According to the ISO (*International Organization for Standardization*), The European system of standardization, the flaw is the legitimacy of standards that are created only by experts without the involvement of public institutions.
The ISO is a hybrid form of governance at the world level. Its members, which are

approximately 130, are not governments but, for each country, the most representative institution of standardization. Those institutions can be governmental agencies, as in Japan and a large number of developed countries, private institutions or mixed institutions, as in several European countries.
Since 1985, The European community introduced a harmonization of standards and tried to improve the European standardization process. There was also the will to spread standards out of the Union, in order to avoid that the Unique Market created trade barriers. This measure has been reinforced by bilateral cooperation agreements. This strategic policy has been in favour of European standards on markets [Igalens & Penan, 1994].

Two kinds of standardization systems are present on the market: the American one and the European one. Their logics and constructions are different. In Europe, the system relies on the self-regulating firms whereas in the USA the state controls more the use of standards but not enough their creation. The role of the actors is not the same in each kind of standardization systems.
Those differences find expression in a strong competition between Europe and the USA at the level of standardization. The basis of this confrontation is the competition between their industrial policies. This conflict has become more complex with the emergence of consortiums standards. So the old confrontation between the two sides of the Atlantic Ocean has to face a new phenomenon related to firms role.
The assets of consortiums standards are their flexibility, their rapidity of creation and the funding capacity of consortiums. The main actor in that field is *the Industry Cooperation on Standards & Conformity Assessment* (ICSCA). Such a model has to face the critical vision of liberal globalization. Private standards can be seen as a mean to pass by the principles of consultation and representativeness that structure the national policies of standardization. Moreover, private actors do not have an economic independency in allowing the control of standard at international level.

Conclusion:

The firm can use a large scope of instruments in order to formalize economic ethics. Therefore, standardization is a specific mean of formalization of ethics. Ethical standards are at the same time a tool of exchange and development for the entire economy, a tool of transparency for consumers, a strategically tool for firms and a tool of public policy.

The implementation of ethical standards involved various and numerous actors that can give it a real role to play on economic, on a microeconomic and macroeconomic level. The difficulty is that its writing concerned stakeholders with various interests. Nevertheless, it is from this dialogue that can emerge the legitimacy of standards. The other issue is the implementation of ethical standards. If the legitimacy of ethical standards is not established, then it can not be an efficient tool for the firm. The analysis of ethical formalization in terms of power stresses the difficulties of creation and establishment of tools. A solution can be found in the use of those tools at the level of firms and in an analysis of their legitimacy.

The debate becomes more complex when we consider the structural power of standards that contribute to the regulation of capitalism. There are some economic aspects of the analysis of firms ethical behaviours, but the issue is more complex because it leads to the future of a society model. Some choices about ethical standards can be done both by the private sector and the State. At last, it is necessary to keep in mind that standards are not the only mean of coordination and implementation of ethics. Codes of conduct, which are more directly linked with firms, have surely a future in business ethic story. A point is still frightening about the development of a business ethics: such an ethics can help to resolve problems one by one at a local level. A "*microeconomic ethics*" [Salmon (2002)], that is in favour of deregulation at a macroeconomic level, emerges on markets.

Bibliography:

Akerlof K.G. (1970) "The Market for Lemons: Quality Uncertainty and the Market Mechanism", *Quarterly Journal of Economics*, Vol.84.

Aristote (1972) *Ethique à Nicomaque*, Vrin.

Arnsperger C. & Van Parijs P. (2000*) Ethique économique et sociale*, Coll. Repères, La Découverte.

Arthur W.B. (1988) "Competing technologies: an overview", In G.Dosi & alii, *Technical Change and Economic Theory*, Pinter Publisher.

Arrow K.J. (1973) "Social Responsibility and Economic Efficiency", *Public Policy*, Vol.21.

Baker G. & Gibbons R. & Murphy K.J. (2001) "Bringing the Market inside the Firm?", *American Economic Review*, American Economic Association, Vol. 91(2), pages 212-218.

Ballet J. & De Bry F. (2001) *L'entreprise et l'éthique*, Editions du Seuil.

Barro R.J. & Gordon D.B. (1983) "Rules, Discretion and Reputation in a model of Monetary Policy", *Journal of Monetary Economics*, Vol.12.

Batifoulier P. & alii (2001) *Théories des conventions*, Economica.

Baumol W.J. (1991*) Perfect markets and easy virtue-Business Ethics and the invisible hand*, Mitsui Lectures in Economics, Blackwell.

Beauchamp T.L. & Bowie N.E. (2001) *Ethical theory and business*, Sixth edition, Prentice hall.

Becker G.S. (1974) "A theory of Social Interactions", *Journal of Political Economy*, Vol.82.

Berenbeim R. (1992) "Corporate Ethics Practices" Report n° 986, *Conference Board*, 1992.

Berman S.L. & alii (1999) "Does Stakeholder Orientation Matter? The Relationship between Stakeholder Management Models and Firm Financial Performance", *Academy of management Journal*, Vol. 42, n° 5.

Bensen, S.M. & J. Farrell (1994). "Choosing how to compete: Strategies and Tactics in Standardization", *Journal of Economic Perspectives*, Vol. 8, n°2.

Bowman E.H. & Haire M. (1975) "A strategic Posture toward Corporate Social Responsibility", *California Management Review*, Vol.18.

Boyer A. (2002*) L'impossible éthique des entreprises*, Edition d'organisation.

Brennan G. & Buchanan J.M. (1985) *The Reasons of Rules. Constitutional Political Economy*, Cambridge University Press.

Coase R.H. (1937) *The Nature of the Firm*, Economica.

Cochoy F. (1998) "L'âne de Buridan revisité ou l'homme économique moderne entre marketing et normalisation des produits", *Gérer et Comprendre* n°54, déc., Annales des Mines, Edition ESKA.

Etchegoyen A. (1991) *La Valse des éthiques*, Edition François Bourin.

Favereau O. (1989) "Marchés internes, Marchés externes", *Revue Economique*, Vol 40, n°2.

French P. (1979) "The Corporation as a Moral Person", *American Philosophical Quarterly*, Vol.16.

Friedman M. (1962) *Capitalism and Freedom*, University of Chicago Press.

Gendron C. (2000) "Enjeux sociaux et représentations de l'entreprise", Revue du *MAUSS* N°15, La Découverte.

Grenard A. (1996) "Normalisation, certification : quelques définitions", *Revue d'Économie Industrielle* n°75, Normalisation et organisation de l'industrie.

Habermas J. (1971) *Theory and Practice*, Heinemann.

Habermas J. (1984) *The Theory of Communicative Action*, Vol. I: *Reason and the Rationalization of Society,* Heinemann.

Habermas J. (1987) *The Theory of Communicative Action*, Vol. 2: *Life-world and System: A Critique of Functionalist Reason*, Polity.

Hallis F. (1930) *Corporate Personality*, Oxford University Press.

Hamdouch A. (1997) "Normalisation et stratégie des firmes : entre concurrence et coopération", *Cahiers du Crifes-Metis*, n°82.

Hirschman A. (1984*) L'économie comme science morale et politique*, Gallimard, Le Seuil.

Igalens J. & Penan H. (1994) *La normalisation*, Que sais-je ?, PUF.

Jacquemin A. & Slade M.E. (1989) "Cartels, Collusion, and Horizontal Merger", In Schmalensee R. & Willig R.D., *Handbook of Industrial Organization*, Vol.1.

Kant I. (1981) *The grounding for the Metaphysics of Morals*, Hackett.

Kaul I., Grunber, I. & Stern M.A. (1999) "Defining Global Public Goods", In Kaul I., Grunberg I. & Stern M.A., *Global Public Goods*, Oxford University Press.

Kindleberger C.P. (1986) "Internal public goods without internal government", *American Economic Review,* Vol. 76, n°1.

Koslowski P. (2001) *Principles of ethical economy,* Kluwer Academic Publishers.

Mahieu F.R. (2001) *Ethique Economique- Fondements anthropologiques*, L'Harmattan.

March J.G. & Simon H.A. (1958) *Organizations,* John Wiley and Sons.

Micheletti P. (2003) "L'éthique : accélérateur de confiance", *Humanisme & Entreprise*, janvier, n°02-256.

Olson M. (1965) *The logic of collective action*, Harvard University Press.

Orlean A. (1994) *Analyse économique des conventions*, PUF.

Pérez R. (2003) *La gouvernance des entreprises*, La Découverte, Repères.

Pesqueux Y. & Ramanantsoa B. (1995) "La situation éthique en France", *Revue éthique des affaires*, n°1, janv.

Poirson P. & alii (1995) *Guide pratique et théorique de l'éthique des affaires et de l'entreprise*, Eska

Ravix J.T. & P.M.Romani (1996) "Certification et formes de coordination dans l'organisation de la production industrielle", *Revue d'économie industrielle*, n°75.

Robbins L. (1932) *An Essay On the Nature and Significance of Economic Science*, New York University Press.

Roman R.M., Hayibor S. & Agle B.R. (1999) "The Relationship between Social and Financial Performance. Repainting a Portrait", *Business and Society*, Vol.38, n°4.

Salmon A. (2002) *Éthique et ordre économique-Une entreprise de séduction*, CNRS Editions.

Salmon A. (2000) "Réveil du souci éthique dans les entreprises : un nouvel esprit du capitalisme", Revue du *MAUSS* N°15, La Découverte.

Samuelson P.A. (1954) "The Pure Theory of Public Expenditure," *Review of Economics and Statistics*, XXXVI, 387-89.

Savage L. (1954) *The Foundations of Statistics*, Dover Publications.

Searle J.R. (1995) *The construction of social reality*, The Free Press.

Sen A. (1999) *Development as freedom*, Oxford U.P.

Sen A. (1977) "Rational Fools: A critique of the behavioural foundations of economic theory", *Philosophy and Public Affairs*.

Sen A. (1964) "Isolation, assurance and the social rate of discount", *Quarterly Journal of Economics*, 81 (Feb), 112-24.

Simon H. (1982) *Models of Bounded Rationality*, Cambridge, Mass: the M.I.T. Press.

Smith A. (1790) *The Theory of Moral Sentiments*, A. Millar, Sixth edition.

Smith A. (1904) An *Inquiry into the Nature an Causes of the Wealth of Nations*, Methuen and Co, Ltd, ed. Edwin Cannan, Fifth edition.

Tourraine R. (1972) *Le chef d'entreprise face à ses responsabilités*, L'auteur.

Veltz P. (1996) *Mondialisation, villes et territoires. L'économie d'archipel*, PUF.

Williamson O. (1975) *Markets and Hierarchies*, Free Press.

Annexe:

Here are some examples of international ethics standards:

- **ISO 14001**.

The ISO 14000 families are among ISO's most widely known standards ever. ISO 14000 try to enable organizations to meet their environmental challenges. The ISO 14000 family is primarily concerned with "environmental management". This means what the organization does to:

-Minimize harmful effects on the environment caused by its activities
-Achieve continual improvement of its environmental performance.

The vast majority of ISO standards are highly specific to a particular product, material, or process. However, the standards that have earned the ISO 14000 families an international reputation are known as "generic management system standards". "Management system" refers to the organization's structure for managing its processes - or activities - that transform inputs of resources into a product or service which meet the organization's objectives, such as satisfying the customer's quality requirements, complying with regulations, or meeting environmental objectives.
So, more specifically, ISO 14001 is an internationally accepted specification for an Environmental Management System (EMS). It specifies requirements for establishing an environmental policy, determining environmental aspects & impacts of products/activities/services, planning environmental objectives and measurable targets, implementation & operation of programs to meet objectives & targets, checking & corrective action, and management review. This standard does not give specific tools of environmental performance but gives the stream that may follow the firm. In December 2003(just before the creation of the new standard ISO 14001:2004), ISO 14000 standards is implemented by some 66070 organizations in 113 countries.

Certification by a registrar provides a much greater degree of credibility for the EMS. The registration and subsequent surveillance audits help to maintain system momentum. Finally, many registrars, through observation, may add value by mentioning opportunities for system improvement in their audit report.
Some of the most commonly cited benefits of an ISO 14001 EMS are:

- Improved perception of the key environmental issues by their employees and a better public image of the organization.
- An increase in the efficiency and use of energy and raw materials
- Improved ability to meet compliance with environmental regulations
- Dependence on a system rather than just the experience and capabilities of an individual to manage the environmental function of an organization.

- **FD ISO/TR 14049**.

In 1998, there was no standard focus on life cycle assessment. The only document that deals with that subject was the draft of AFNOR FD X30-310 ("*Prise en compte de l'environnement dans la conception des produits*"). A French standard had been developed on that basis. It is the FD ISO/TR 14049 (December, 2000) with deals with “Environmental management” and “Life cycle assessment”. It also gives Examples of application of ISO 14041 to goal and scope definitions and inventory analysis. An international standard has been developed on the same sharp: ISO/TR 14049:2000 (March, 2000).

- **OHSAS 18001**

This standard is related to occupational health and safety. OHSAS 18001 has been developed by the *British Standard Institution* (BSI) to be compatible with the ISO 9001 (Quality) and ISO 14001 (Environmental) management systems standards, in order to facilitate the integration of quality, environmental and occupational health and safety management systems by organizations. The (OHSAS) specification gives requirements for an occupational health and safety (OH&S) management system, to enable an organisation to control its OH&S risks and improve its performance. It does not state specific OH&S performance criteria, nor does it give detailed specifications for the design of a management system. The OHSAS specification is applicable to any organisation that wishes to:

- Establish an OH&S management system to eliminate or minimise risk to employees and other interested parties who may be exposed to OH&S risks associated with its activities
- Implement, maintain and continually improve an OH&S management system
- Assure itself of its conformance with its stated OH&S policy
- Demonstrate such conformance to others
- Seek certification/registration of its OH&S management system by an external organisation
- Make a self-determination and declaration of conformance with this OHSAS specification.

- **SA 8000**.

Rising public concern about inhumane working conditions in developing countries led to the creation in 1997 of the *"Council on Economic Priorities Accreditation Agency*". Its purpose was to draw up a universal code of practice for labour conditions in manufacturing industry, so that consumers in developed countries could be confident that the goods they were buying - in particular clothes, toys, cosmetics and electronic goods - had been produced in accordance with recognized set of standards. In summer 2000, CEPAA became known as Social Accountability International (SAI), a new entity whose remit was to develop voluntary standards governing social responsibility, and to certify companies that agreed to meet them. The SA8000 standard for socially responsible employment practices first appeared in 1998. Certification is carried out by a handful of independent auditors, who are accredited by SAI.

SA 8000 is designed to be the first auditable international standard for companies seeking to guarantee the basic rights of workers. It is based on 12 International Labour Organization (ILO) conventions, the United Nation's Universal Declaration of Human Rights, and the UN Convention on the Rights of the Child.

The SA8000 programme offers two separate routes for companies that want to demonstrate their commitment to social responsibility.
The first, membership, is designed for businesses that are involved in retailing. It involves making a commitment to do business only with socially responsible suppliers.
SA8000 members are offered a self-assessment package and other tools to help them implement a policy on social responsibility. They are expected to notify their suppliers of their intention to adopt SA8000 standards, and to set a timetable for phasing out dealings with companies that fail to meet those criteria. Member companies are also required to produce an annual report detailing their SA8000 objectives, and outlining progress that has been made towards those goals. These reports are verified by SAI.
The second route, certification, is intended for manufacturers and suppliers themselves. The process is a rigorous one which begins with the company contacting an accredited auditor. Having demonstrated compliance with existing regulations and assessed how current practice compares with the provisions of SA8000, the company is given the status of 'SA8000 applicant'.

The business then puts in place an SA8000 programme, which is scrutinized by a 'pre-assessment audit'. Any improvements that are recommended can be put into practice before the formal audit takes place.
Following the formal assessment, the company is again given the opportunity to put right any shortcomings, before being checked again. If at the end of this process the auditors are satisfied that the company is fully compliant, they will issue an SA8000 certificate, valid for three years.

The SA8000 code of practice is broken down into nine key areas:
- Child labour;
- Forced labour;
- Health and safety;
- Freedom of association and collective bargaining;
- Discrimination;
- Disciplinary practices;
- Working hours;
- Compensation;
- Management system.

In 2002, 82 were certified SA8000 in the world, with 2 in France and the half in China (in 2004, 572 firms in the world). The 05/19//2004, 400 firms were certified SA8000 all around 40 countries, which represents 257, 803 workers.

- **AA 1000.**

The "*Research Executive of Account Ability*" developed this standard for ethical performance in 1999. Accountability 1000 (AA1000) is the work of ISEA - the Institute for Social and Ethical Accountability. ISEA (also known as AccountAbility) is an international membership organisation, based in the UK. It exists to encourage ethical behaviour in business and non-profit organisations.
AA1000 is promoted as a standard for the measuring and reporting of ethical behaviour in business. It provides a framework that organisations can use to understand and improve their ethical performance, and a means for others to judge the validity of claims to be ethical.
It aims to assist an organisation in the definition of goals and targets, the measurement of progress made against these targets, the auditing and reporting of performance and in the establishment of feedback mechanisms.
The involvement of stakeholder groups is crucial to each stage of the process. AA1000 can be used to underpin the quality of specialised accountability standards or as a stand-alone system. The Framework helps users to establish a systematic stakeholder engagement process that generates the indicators, targets, and reporting systems needed to ensure its effectiveness in overall organisational performance.

The standard is designed both for internal and external audit procedures. It may be used by organisations of any size, whether single or multi site, and by public, private and non profit organisations.
The principle underpinning AA1000 is exclusivity. The building blocks of the process framework are planning, accounting and auditing and reporting. It does not prescribe what should be reported on but rather the 'how'. In this way it is designed to complement the GRI Reporting Guidelines.

	2003	**2004 interim**	**2005 interim**
Total organisations using the AA1000 Assurance Standard	68	73	13
Total Assurance Providers using the AA1000 Assurance Standard	32	29	8
Total AA1000 Assurance Standard Users	100	103	21
Reference to the AA1000 Principles i.e training, standards etc	12	13	13
Grand Total - Use and Reference	112	116	34

Source: http://www.accountability.org.uk